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City Council
City of Burbank
Burbank, California

In planning and performing our audit of the financial statements of the City of Burbank (City) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, as a service to you, we identified during our audit certain matters that provide you an opportunity for enhance your existing internal controls. These matters are provided as recommendations for your consideration and are not considered to be material weaknesses in internal control or significant deficiencies in internal control.

(1) Improvement in the Cash/Bank Reconciliation Process

During our review of the City's cash and investments at June 30, 2010, we noted the following items:

- The cash reconciliation prepared by the Finance Department identified a \$449,474 reconciling item. The adjusting entry for this item was posted by the finance department in the July period, the month the item was discovered. However, the entry to correct the cash balance should have been posted in the June period.
- The bank reconciliation prepared by the Treasurer was not prepared as of the last day of the month, June 30, 2010. This resulted in \$497,451 of June activity not being included in the June reconciliation statement.

(1) Improvement in the Cash/Bank Reconciliation Process, (Continued)

- The summary page of the Monthly Treasurer Investment Portfolio report for June 30, 2010 disclosed investments totaling \$423,165,909. However, total cash and investments per the Comprehensive Annual Financial Report total \$549,188,000. The Treasurer's Investment Portfolio summary page only included those investments under the Treasurer's control and did not include certain investments managed outside of the Treasures office, such as monies with bond fiscal agents, certain checking accounts, and cash on hand.

Recommendation

The cash and bank reconciliation process is an important control to ensure the City's cash and investments are properly accounted for. When the Finance Department detects errors in the cash reconciliation process, adjustments need to be made to the City's accounting records to correct those errors in the proper period. Additionally, the Treasury Department should perform bank reconciliations on the last day of the month to eliminate additional reconciliations that need to be performed by the Finance Department for the period of time between the Treasurer's bank reconciliation and the end of the month. The Treasury Department should consider including all cash and investments under the direction of the City in the summary page of the Treasurer's Investment Portfolio report.

(2) Enhance Security Controls Over Information Technology Systems

During our review of user access controls and password settings for the Active Directory, we noted that certain user account policies could be upgraded to be more in line with industry standards. Specifically, we noted users are not required to change their password after a certain number of days.

Recommendations

We recommend the City consider implementing the below noted password controls:

The following are industry standard user account policies that, if implemented, should provide for increased security over system resources:

- Passwords should be required to be changed periodically, between 30 to 90 days.
- Use of old passwords (for example, within 6 generations) should be prohibited.
- Unsuccessful attempts to log in should be limited to between 3 and 5 attempts.

(3) Research of Certain Accounting Differences

During our review of long-term liabilities of the Redevelopment Agency of the City of Burbank, we noted immaterial differences between what is recorded as principal expense in the Golden State Debt Service and City Centre Debt Service funds and the scheduled principal payments per the bond documents.

(3) Research of Certain Accounting Differences, (Continued)

Recommendation

We recommend the City investigate these immaterial differences and determine if corrections should be made.

(4) Detailed Review of Water and Electric Funds' Capital Assets

During the fiscal year ended June 30, 2010, a study was conducted on the Water and Electric Funds' utility capital assets. The purpose of the study was to improve the accuracy and ongoing usefulness of the utility capital asset records. As a result of the study, a considerable portion of the capital assets were reclassified into different categories and assets identified as no longer in service were retired. Management feels that the net impact of the changes to the Water and Electric Funds capital assets were not material. However, the auditors were unable to verify the magnitude of the changes because of the following: a) included in the current year capital assets is construction in progress additions and deletions that were not subject to the study, and b) because of the manner in which the changes were made to the capital asset system, the City was unable to specifically identify the dollar impact of the changes.

Recommendation

We recommend the City perform a detailed review of the new capital assets to ensure accuracy of the records. This review should include the following steps:

- Preparation of a summarizing report for the study, including a summary of the methodology used and applied, and of its impact on the financial Statements for the fiscal year ended June 30, 2010.
- Management should sample the new assets produced and ensure they are depreciating as expected.
- Management should sample the assets not revalued or retired by the study to make sure they are still in the asset records and depreciating as expected.

This communication is intended solely for the information and use of the City of Burbank's management, those charged with governance, others within the organization, and agencies that provided federal financial assistance to the City and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 24, 2010